TAX EXEMPT REVIEW COMMITTEE
Fargo, North Dakota

Regular Meeting **Tuesday, October 25, 2016**

The Regular Meeting of the Tax Exempt Review Committee of the City of Fargo, North Dakota, was held in the City Commission Room at City Hall at 1:30 p.m., Tuesday, October 25, 2016.

The committee members present or absent are as shown following:
Present: Dave Piepkorn, Bruce Grubb, Jim Buus, Mayor Tim Mahoney, Jessica Ebeling, Chuck Hoge, Broc Lietz, Jim Gartin, Jim Gilmour, Mark Lemer, Erik Johnson & Ben Hushka.
Absent: Kent Costin

Committee Chairman Dave Piepkorn called the meeting to order at 1:30 p.m.

Application for New/Expanding Industry Payment In Lieu Of Tax (PILOT) submitted by Border States Industries.

Commissioner Dave Piepkorn asked Ben Hushka, City Assessor, to introduce the item. Mr. Hushka stated that this is an expansion to include construction of a new corporate headquarters. The headquarters has received primary sector designation from the State and, with the jobs to be created, this meets policy according to our point system. There are no policy concerns with this application.

Border States representative Philip Settles introduced himself. Mr. Settles stated that they currently have three locations where they have their corporate headquarter employees. This project is to get everyone under one roof. Mr. Settles said they see growth opportunities around the country. They have acquired other companies in the recent past and have had employees from those acquisitions move to Fargo. The plan is for a 120,000 square foot, three story, office space for their corporate headquarter employees.

In response to Commissioner Piepkorn's question about their corporate presence, Mr. Settles stated they are in 97 locations in 18 states. They serve the construction, utility, and industrial electrical markets. They serve all of these different entities from Fargo as kind of a branch support center.

Mayor Mahoney said that with the projected sustained growth of employees and good salaries, this is a good industry to have in our community and a good use of tax incentives to help stimulate growth.

Mark Lemer questioned if the intention is to grant on the entire new facility or if there will be an adjustment for the existing locations. Mr. Hushka stated that the committee would need to consider that in their recommendation to the City Commission. He said that both have been done in the past. Some have been granted on the entire new facility and some have been granted only on the incremental difference.

Jim Gartin stated that Border States does not currently own the buildings they are in and those buildings will continue to pay taxes.

As a point of clarification, Mr. Settles stated that they do currently own the north building that currently houses their IT department. They will be selling that to their current landlord.

Mayor Mahoney moved to approve the application for a PILOT for the Border States Industries project based on 5 years at 100% and 5 years at 50% as submitted.

Second by Jessica Ebeling. Committee member Bruce Grubb recused himself from the vote due to the fact that his spouse is employed by the applicant. All remaining members present voted aye and the motion was declared carried.

Discussion of Residential New Construction Exemption Policy.

Commissioner Dave Piepkorn asked Ben Hushka, City Assessor, to introduce the item.

Mr. Hushka stated that the policy review committee did not get into a great amount detail on this part of the policy knowing that it would be necessary to include the home builders and Realtors in the discussion. Mr. Hushka said there was some sentiment on the committee about phasing out the exemption, either on a sliding scale as the value increases or altogether at a certain value point. Hushka presented a table of the count of properties constructed between 2013-2015 that fell into various assessment valuation breakdowns.

In response to a question by Commissioner Piepkorn regarding the other cities in the metro area, Hushka stated that he believes West Fargo follows the same policy as Fargo. Fargo's policy is to grant the maximum allowed by law to the first owner after the builder. For the builder exemption, the law allows eligibility for up to 10 properties for up to two years after start of construction. Fargo policy allows on up to five properties for the year construction began and one additional year.

Commissioner Piepkorn introduced Bryce Johnson of the Fargo Moorhead Home Builders Association. Bryce distributed written information from a recently completed economic impact study for the Fargo MSA. She stated that information will be referred to by the four people who will speak in support of keeping the new residence incentive in place.

Ben Schroder, President of the Fargo Moorhead Realtors Association, was introduced. Mr. Schroder said that when people are looking to build new construction, people want to know the advantages and disadvantages of the different communities around the area. One item that does come up that costs people more in the Fargo area are the cost of flood-proof basements. Mr. Schroder said that the new residence incentive in Moorhead is somewhat similar to Fargo and West Fargo. He said that home affordability is a major concern in new construction and if Fargo eliminates the incentive, that would give neighboring communities an advantage. He feels that a reactive approach after the fact to get people back may be more difficult than keeping the current system in place. Mr. Schroder stated that they sell across the metro area and, putting numbers together for clients comparing the cities, he feels that Fargo could lose out without the incentive to offer.

Mayor Mahoney said that the way we looked at it was on the assumption that, especially on a $300,000-$400,000 or more house, the amount of the exemption didn't impact purchase decisions that much. He asked Mr. Schroder if it does have that much of an impact. Mr. Schroder affirmed that it absolutely did. He said it does especially when you consider the additional cost of the flood-proof basements. He said that the sales of new construction is down about 5% from the previous year so, it seems that the passing of the new flood

requirements is already starting to show a decline. Mr. Schroder also stated that the new construction market is starting to level off and that it will become more competitive.

Clay Dietrich, of Dietrich Homes and immediate Past President of the Home Builders Association, addressed the committee. He said that according to a 2014 study, every time you add $1,000 to the cost of a home, you price out 195 potential buyers. With the increased cost of flood proofing basements, and specials assessment costs, it does take a significant number of people out of the market. He said that when we look at that and this incentive program that has been successful for quite a long time, we are concerned about changing it. Mr. Dietrich said they are also concerned about reducing it on a graduated scale because it already is in its present form. There is a reduced percentage of the value that the exemption represents as the value increases. He said the good thing for the City is that for the same amount of credit, the City gets a higher tax base the higher the values are. He said that it would be counter-productive by limiting the ability to attract homes above a certain number compared to the competition. Mr. Dietrich said that this is different than incentives for big businesses that add a lot of tax base and jobs. Home builders are fairly small companies and the incentive for them needs to be directly to the consumer. Mr. Dietrich stated that Moorhead's incentive for new homes is better than Fargo and West Fargo because they offer a two-year rebate for the full taxes, with no cap.

Tom Spaeth, President of the Home Builders Association, addressed the committee. Mr. Spaeth said, going along with what Ben & Clay have presented, we are wondering why we want to fix something that isn't broke. In a study by the FM Realtors between September 2015 & September 2016, 77 homes were sold in the $400,000 or over price range. That equaled $42,200,000 of taxable value. He said they feel that it is a pretty good program for everybody. He said they also feel the program has allowed many people to move into their dream homes a little earlier than they otherwise would have been able to.

Tyrone Leslie, Heritage Homes and President-Elect of the Home Builders Association, addressed the committee. Mr. Leslie said that he is involved with a lot of the homeowners through the process and, in listening to them, this incentive is a big deal. He said whether it is $400,000 or $270,000, it doesn't make a difference. Mr. Leslie said that the last thing anyone wants is a drop in construction, or a slowdown. He said a lot of jobs are on the line and in this conservative market, every amount of keeping costs down helps. It has helped and he thanked the City for having the program. He said rather than looking to reduce or eliminate it, we should be looking at how to improve the program. He said that many of his counterparts in other cities do not have this collaboration with their cities to work on issues like this.

Mayor Mahoney stated that, with the reduction in tax rates the value, or cost, of the incentive on the $150,000 may be less now than what the it was when the rates were higher. He said maybe the amount should be raised. Mr. Leslie agreed.

Member Chuck Hoge said that all incentives should be evaluated from the perspective of what point are they appropriate and at what point are they not necessary. He said that the attempt to phase it out at $400,000 was likely someone's idea that maybe it was not necessary at that point. He said that he would like some thinking by the builders and Realtors that, if we were to phase it out, what is the point at which it should be. Mr. Leslie agreed that everyone involved should be thinking about what can be considered going forward.

Commissioner Piepkorn said that this is the initial discussion. He said that it would be helpful for someone to point out the main points of the information the Home Builders Association handed out for us to look at due to the amount of information the committee has to look at. Bryce Johnson said that the most important handout would be the economic impact study. She said that the study shows an immediate economic impact to the local economy of new homes because most of the providers are already here and not coming in from other locations to build the new homes.

Commissioner Piepkorn said that we will review what was discussed today and the information we have received. He said that we will meet again in about one month.

The meeting adjourned at 2:19 p.m., Tuesday, October 25, 2016.